

Message Text

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ACTION AF-06

INFO OCT-01 EB-07 ISO-00 FPC-01 INT-05 TRSE-00 CIAE-00

INR-07 NSAE-00 OES-03 CIEP-01 OMB-01 FEA-01 SS-15

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O R 050849Z FEB 76

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC IMMEDIATE 3181

INFO USDOC WASHDC

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AF/W FOR LOLLIS

E. O. 11652: N/A

TAGS: ENRG, BEXP, NI

SUBJ: STATUS OF NIGERIAN LNG PROJECTS

REF : (A) LAGOS A-154, OCTOBER 19, 1975; (B) LAGOS 772

1. LARRY HOELSCHER OF PHILLIPS PETROLEUM INFORMED EMBASSY HE WILL BE TRAVELLING TO WASHINGTON D. C. TO JOIN PHILLIPS VICE PRESIDENT E.A. VAN DEN BARK IN CALL ON AF ARRANGED FOR THURSDAY MORNING, FEBRUARY 5.

2. JUST PRIOR TO DEPARTURE, HOELSCHER FILLED EMBASSY IN ON RESULTS OF TALKS WHICH PHILLIPS OFFICIALS HAD WITH PETROLEUM AND ENERGY PERMSEC AWONIYI, PETROLEUM RESOURCES DIRECTOR MARINHO, AND LNG PROJECT OFFICER AKPE.

3. PHILLIPS RECEIVED ORAL ASSURANCES OF FAVORABLE BUT UNSPECIFIC CHANGES IN FMG TERMS IN OCTOBER, FOLLOWED UP BY LETTER FROM MINISTRY OF PETROLEUM AND ENERGY (MPE) NOV. 26 ASKING COMPANY TO AFFIRM WHETHER IT INTERESTED IN LNG PROJECT OR NOT. AS REPORTED, PHILLIPS REPLIED JANUARY 16 THAT IT READY TO MEET MPE ASAP, AND KENNETH HEADY, VICE PRESIDENT, GAS AND GAS
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LIQUIDS DIVISION, NATURAL RESOURCES GROUP, ACCOMPANIED BY PAUL

TUCKER AND BOB NAGLE, ARRIVED LAGOS JANUARY 23. MEETING TOOK PLACE JANUARY 28.

4. HEADY ASSURED AWONIYI PHILLIPS INTERESTED, AND REVIEWED WORK HIS FIRM HAD DONE SINCE OCTOBER. HEADY SAID IN ABSENCE ANY SPECIFIC DIRECTIVES FROM MPE, PHILLIPS HAD SIMPLY WORKED ON THE ASSUMPTION THAT MPE WOULD APPROVE COMPANY'S SUGGESTIONS FOR WHATEVER WAS NEEDED TO MAKE PROJECT VIABLE. HEADY SAID PHILLIPS DID NOT WANT TO BE ASSOCIATED WITH A FAILURE OR ALGERIAN-CHEMICO TYPE TROUBLES, AND WAS SURE FMG FELT SAME WAY. THIS RECEIVED NODDED ASSENT. HEADY EMPHASIZED HEADSTART PHILLIPS HAS GAINED THROUGH DETAILED STUDIES OF NIGERIAN GAS RESERVOIRS, DRILLING SCHEDULES AND MARKETS. MOST IMPORTANT CONDITION WAS THAT PHILLIPS SHOULD HAVE A FINANCIAL AND OPERATING INTEREST IN THE PIPELINE SYSTEM AS WELL AS THE LNG PLANT ITSELF. THIS NECESSARY TO GIVE GUARANTEES OF SECURE SUPPLY OVER 22 YEAR LIFE OF PROJECT, AS WELL AS ASSURANCE OF COMPETENT MANAGEMENT OF ENTIRE OPERATION, WITHOUT WHICH IT WOULD BE IMPOSSIBLE TO ATTRACT EITHER CUSTOMERS OR FINANCING. IF EVERYONE GOT MOVING NOW, PLANT COULD BE ONSTREAM BY 1980. THREE TRAIN PLANT ENVISAGED. TO START WITH MARKET WOULD BE EUROPE AND SOUTH AMERICA. U.S. MARKET WOULD OPEN ONLY AFTER FPC MADE UP ITS MIND ABOUT IMPORTS. HEADY PRESENTED AWONIYI WITH SEVEN PAGE SUMMARY OF UPDATED COST ESTIMATES AND CASH FLOWS FROM WELL TO PLANT, INCLUDING WHAT EACH PARTNER WOULD EARN. COST OF ONE LNG PLANT, WELLS, PIPELINES, AND DEHYDRATION FACILITIES WOULD BE ABOUT DOLLARS 2.4 BILLION. SHIPPING OPERATION NOT INCLUDED SINCE EACH PROSPECTIVE LNG BUYER, AS WELL AS FMG AND PHILLIPS/AGIP, WOULD WANT A SHARE OF IT. HEADY CONCLUDED BY SAYING THAT MPE WELL AWARE PHILLIPS ONE OF FEW FIRMS ALREADY OPERATING SUCCESSFUL LNG FACILITIES AND COULD START TRAINING NIGERIANS RIGHT NOW AT ITS KENAI ALASKA PLANT SO THEY WOULD BE FULLY CAPABLE OF RUNNING NIGERIAN PLANT AS SOON AS IT WAS COMPLETED. AWONIYI AND COLLEAGUES SHOWED CONSIDERABLE INTEREST IN THIS POINT.

5. AWONIYI IN RESPONDING NOTED HE HADN'T HEARD FROM PHILLIPS FOR SIX MONTHS AND, SENSING PHILLIPS NO LONGER INTERESTED, MPE HAD CONTACTED OTHER FIRMS ABOUT LNG PROJECT. AWONIYI REAFFIRMED THAT PETERSIDE SITE DESIRED BY PHILLIPS WAS ACCEPTABLE. MOST SIGNIFICANTLY, HE ACCEPTED PHILLIPS CONCEPT THAT INTEGRATED RESPONSIBILITY FROM WELLHEAD TO CUSTOMER WAS DESIRABLE AND AGREED THAT LIMITED OFFICIAL USE

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PHILLIPS COULD HAVE AN INTEREST IN THE GAS GATHERING PIPELINE SYSTEM. AWONIYI CONCLUDED THAT HE WOULD STUDY COST SUMMARY THOROUGHLY AND HOPED QTE WHEN WE MEET AGAIN UNQTE THAT PHILLIPS WOULD HAVE A FLEXIBLE ATTITUDE AND OPEN MIND. HE SAID FMG RECOGNIZED PHILLIPS HAS ESSENTIAL INTERESTS, AND SO DOES FMG. PHILLIPS/AGIP PROPOSAL HAD BEEN A TOUGH ONE FOR FMG TO DEAL WITH. HEADY REPLIED THAT PHILLIPS/AGIP, UNLIKE ANY FIRMS THAT MIGHT APPROACH LNG PROJECT FROM SCRATCH, HAD STUDIED REALITIES OF

SITUATION LONG ENOUGH TO PRESENT A TRULY VIABLE PROPOSAL THAT WOULD GENUINELY MEET NEEDS OF BOTH SIDES.

6. IN CONVERSATION JANUARY 26 WITH AMBASSADOR EASUM, HEADY ET AL MADE FOLLOWING ADDITIONAL POINTS:

(A) THE LAND AVAILABLE AT ESCRAVOS SITE WHICH FMG FIRST INSISTED ON WAS IN FACT BETTER THAN AT PETERSIDE. HOWEVER, THE WATER AT ESCRAVOS WAS TOO SHALLOW (19 VERSUS 42 FEET) AND WOULD REQUIRE PERHAPS DOLLARS 300 MILLION TO CONSTRUCT A NEW PORT AND ANOTHER 20 MILLION PER YEAR IN DREDGING. GULF'S PROPOSAL FOR ESCRAVOS STIPULATED AN OFFSHORE PLANT TO AVOID THIS PROBLEM. HOWEVER, GAS MUST BE CARRIED TO AN OFFSHORE PLANT IN RIGID PIPER TO CONTAIN PRESSURE, AND PROBLEMS OF WAVE IMPACT ON SUCH PIPES STILL NOT SATISFACTORILY WORKED OUT.

(B) SHELL/BP HAD ITS LAST MEETING WITH FMG OFFICIALS IN OCTOBER. IT HAS NOT ADOPTED PHILLIPS' POLICY OF CONFRONTING THE FMG WITH THE TERMS IT FEELS MUST BE MET TO MAKE A PROJECT VIABLE, BUT HAS ELECTED TO AGREE FIRST AND TRY TO BRING THE FMG AROUND TO ITS WAY OF THINKING AFTERWARDS. SHELL/BP HAS STILL NOT SIGNED AN AGREEMENT, HOWEVER.

(C) PHILLIPS IS WORRIED THAT ELF-ERAP IS TRYING TO CONVINCE THE FMG TO WITHHOLD APPROVAL OF THE PHILLIPS/AGIP PROPOSAL FOR ONE YEAR TO ALLOW ELF-ERAP TIME TO PREPARE AN ACCEPTABLE PROPOSAL. TENNECO WAS NOT MENTIONED.
EASUM

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